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Washington, D.C. 20505

83-4820

7 NOV 1983

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MEMORANDUM FOR: Chairman, Information Handling Committee

FROM: Daniel A. Childs, Jr.
Comptroller

SUBJECT: House Appropriations Committee (HAC) Recommendations on
ADP Acquisition

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Six recommendations on ADP acquisition were enunciated by the HAC in the unclassified report accompanying the fiscal year 1984 Defense Appropriation Bill. Though their applicability to CIA is still somewhat unclear, and we feel strongly that the Agency should and will be excluded from some of the provisions of the report, we have made a preliminary assessment of their impact.

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1. Beginning in fiscal year 1984, all ADP components are to be purchased outright rather than leased.

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Agency mainframe computer systems are generally procured under installment purchase plans or lease arrangements. Use of installment purchase plans (specifically annual payment plans) is typically required because funding limitations generally preclude outright purchase. The Office of Data Processing (ODP) uses this method. Alternatively, lease is preferred when the ADP equipment is estimated to have a limited systems life due, for example, to changing technology. The National Photographic Interpretation Center (NPIC) leases many of its Univac mainframes. FY 1984 and FY 1985 budgets were based on the continuation of installment purchase plans and lease agreements and the use of these approaches for planned new acquisitions. HAC strictures precluding plans other than purchase would severely disrupt these FY 1984 and FY 1985 funding profiles. A detailed study would be required to estimate additional funding requirements so that installed and new equipment could be procured through outright purchase only, but it appears that at least an additional \$40 million would be needed in 1984. Without these additional funds, critical planned acquisitions

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would have to be postponed. Funding over the next several years would also have to be increased to meet purchase requirements for new capacity. (Savings--basically interest--would be realized only gradually). []

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In our experience, lease arrangements are, in certain circumstances, in the best interest of the government. When judiciously used, leasing can provide important flexibility to program managers. It can reduce the risk of technical obsolescence and provide a mechanism for meeting short-term requirements. Moreover, leasing can reduce the risk of absorbing new technology. It can provide the mechanism whereby new technology can be fully evaluated in an operational environment before significant financial commitments are made. In short, leasing is preferred when ADP equipment is expected to have a limited systems life. Existing regulations require that procurement options be evaluated with respect to achieving the lowest overall evaluated cost over the systems life. This approach is conceptually sound. Outright purchase cannot, a priori, be assumed the most advantageous approach. A detailed cost analysis is always required. []

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2. Acquisition of ADP equipment is to be accomplished through direct competition of interested vendors. []

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ADP acquisition is accomplished according to existing procurement regulations. Competition is clearly the preferred approach. Sole source procurements, however, are permitted under special circumstances outlined in the regulations. In the Agency arena, security and operational concerns also may require that competition be limited in certain situations. The Agency should not be forced to undertake competition for competition's sake when it is clear that only one vendor can satisfy an Agency requirement. Currently, a board of senior Agency officers, the Agency Contract Review Board (ACRB), approves all procurements over [] The ACRB is advisory to the Director of Logistics, who is ultimately responsible for the integrity and effectiveness of the Agency procurement system. We believe these procedures provide the appropriate checks and balances on the procurement process. The [] threshold is a reasonable one for review. Existing procurement regulations provide an appropriate balance between the government's desire to encourage competition and the requirement to acquire ADP equipment and services that meet both substantive needs and appropriate resource management criteria. []

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3. A comprehensive audit of all ADP equipment is to be performed. []

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[] ADP Management and Administration, requires the Office of Data Processing to maintain an Agency-wide ADP equipment inventory. Due to resource constraints, ODP has not always been able to keep this inventory current. A project to update this inventory has been established and is currently underway. []

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ODP also manages the Agency excess ADP equipment reutilization program. All excess ADP equipment is identified to ODP, and ODP attempts to arrange for its reutilization. Equipment that has no alternative Agency use is turned over to the Office of Logistics for transfer to the General Services Administration. The Agency excess ADP equipment program has been working very effectively for many years now. Finally, with the assistance of the

cognizant contracting officer, most components regularly review their local equipment inventories for cost saving opportunities through lease-to-purchase conversion. We would support renewed emphasis on this responsibility. []

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4. A comprehensive training and advisory program is to be implemented to insure that contracting officers have sufficient ADP expertise to protect the government's interest. []

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We would support an enhanced level of training for Agency contracting officers. The current problem with training relates to the pressing procurement workload. If the workload per person were reduced by obtaining additional positions, a more comprehensive training program could be implemented. []

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5. A program is to be initiated to buy out all existing ADP equipment not owned. []

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As discussed earlier, further study will be required to estimate the funding implications of a buy-out. We have substantial equipment under annual payment plans (APP's--essentially installment payment plans) and under lease. Our preliminary estimate is that we would require at least [] million in FY 1984 alone. It should be emphasized, however, that for some of this equipment a buy-out may not be advantageous, due to the equipment having a limited systems life. []

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6. No exceptions are to be made for competitive acquisition or outright purchase except with the specific case-by-case approval of senior ADP officials. []

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As indicated earlier, we believe our current procedures are already in substantial compliance with this recommendation. []

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Daniel A. Childs, Jr.